

Message Text

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ORIGIN EA-09

INFO OCT-01 OES-03 ISO-00 PM-04 SP-02 SS-15 INR-07 H-02

EB-07 L-03 /053 R

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APPROVED BY EA/K - MR. MAYHEW
OES - MR. DEVINE

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P 092300Z FEB 76
FM SECSTATE WASHDC
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C O N F I D E N T I A L STATE 031712

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E.O. 11652: GDS
TAGS: EFIN, ETRD, MNUC, KS
SUBJECT: KORI-II

REF: STATE 20557

1. AS INDICATED REFTEL, WE HAVE BEEN PREPARING DOCUMENTATION TO ENABLE EXIMBANK TO MOVE AHEAD WITH KORI-II LOAN. ON FEBRUARY 5, ACTING OES ASST SECY KRATZER SENT LETTER TO EXIMBANK CHAIRMAN DU BRUL ADVISING THAT SAFE-GUARD AND OTHER NON-PROLIFERATION ARRANGEMENTS RELATED TO REACTOR SALE ARE SATISFACTORY.
2. WE UNDERSTAND EXIM HAS INFORMALLY BEEN ADVISED THAT STAFFS OF RESPONSIBLE CONGRESSIONAL COMMITTEES DO NOT ANTICIPATE SERIOUS CONGRESSIONAL PROBLEMS WITH LOAN.
3. FOR YOUR INFORMATION, FOLLOWING IS TEXT OF KRATZER-DU BRUL LETTER:

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I AM WRITING IN REFERENCE TO THE PROPOSED FINANCING BY EXIMBANK OF THE KORI-II NUCLEAR POWER PROJECT FOR THE KOREAN ELECTRIC COMPANY. THIS PROJECT WAS THE SUBJECT OF CORRESPONDENCE IN JUNE OF LAST YEAR BETWEEN ACDA DIRECTOR IKLE AND CHAIRMAN CASEY. IN ADDITION, MR. CASEY WROTE TO SENATORS PROXMIRE AND STEVENSON AND CONGRESSMAN REES ON JUNE 18, 1975, STATING THAT THE EXIMBANK 'WILL NOT SIGN THE CREDIT AGREEMENT FOR THE PROPOSED FINANCING OF THE PROJECT UNTIL THE APPROPRIATE AGENCIES OF THE EXECUTIVE BRANCH INFORM EXIMBANK THAT THE NON-PROLIFERATION ARRANGEMENTS RELATING TO THE RE-CYCLING AND USE OF NUCLEAR FUEL ARE SATISFACTORY.' MR. CASEY ALSO UNDERTOOK TO NOTIFY CONGRESS OF THESE SAFEGUARD ARRANGEMENTS.

THE DEPARTMENT OF STATE IS NOW ABLE TO ASSURE THE EXIMBANK THAT THE APPROPRIATE AGENCIES OF THE EXECUTIVE BRANCH CONSIDER THAT THE SAFEGUARD AND OTHER NON-PROLIFERATION ARRANGEMENTS RELATED TO THIS SALE ARE SATISFACTORY.

SINCE THE DATE OF MR. CASEY'S LETTER TO SENATORS PROXMIRE AND STEVENSON AND CONGRESSMAN REES, THERE HAVE BEEN TWO IMPORTANT DEVELOPMENTS AFFECTING THIS PROJECT. IN THE FIRST, THE DEPARTMENT HAS RECEIVED WRITTEN CONFIRMATION FROM THE KOREAN GOVERNMENT THAT THE REPROCESSING OF ANY SPECIAL NUCLEAR MATERIAL WHICH KOREA RECEIVES FROM THE UNITED STATES OR THE ALTERATION IN FORM OR CONTENT OF ANY IRRADIATED FUEL ELEMENTS CONTAINING FUEL MATERIALS FROM THE UNITED STATES IS SUBJECT TO JOINT DETERMINATION THAT THE PROVISIONS OF ARTICLE XI OF THE 1972 US-ROK AGREEMENT FOR COOPERATION FOR CIVIL USES OF ATOMIC ENERGY MAY BE EFFECTIVELY APPLIED. ADDITIONALLY, THE KOREAN GOVERNMENT HAS CONFIRMED ITS UNDERSTANDING THAT, AS AN ADDITIONAL AND SEPARATE DETERMINATION, KOREA AND THE US MUST EACH AGREE THAT THE FACILITIES AT WHICH THE REPROCESSING OR ALTERATION SHALL BE PERFORMED ARE MUTUALLY ACCEPTABLE.

SECONDLY, THE KOREAN GOVERNMENT RECENTLY INFORMED THE
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DEPARTMENT OF STATE THAT IT HAS DECIDED TO CANCEL THE PLANNED PURCHASE OF A SMALL-SCALE PILOT NUCLEAR REPROCESSING FACILITY FROM FRANCE. EVEN THOUGH THIS SALE WAS COVERED BY A COMPREHENSIVE SAFEGUARDS AGREEMENT BETWEEN FRANCE, THE REPUBLIC OF KOREA AND THE INTERNATIONAL ATOMIC ENERGY AGENCY, OUR GENERAL POLICY HAS BEEN TO STRONGLY FAVOR THE EXPLORATION OF ALTERNATIVES TO NATIONAL REPROCESSING, SUCH AS MULTINATIONAL

REPROCESSING CENTERS. WE HAVE THEREFORE WELCOMED THE KOREAN GOVERNMENT'S DECISION TO CANCEL THIS PROJECT.

IN ADDITION TO THE FOREGOING, I WOULD ALSO NOTE THAT THE KOREAN GOVERNMENT HAS ADHERED TO THE TREATY ON THE NON-PROLIFERATION OF NUCLEAR WEAPONS AND DEPOSITED ITS INSTRUMENT OF RATIFICATION IN WASHINGTON ON APRIL 23, 1975. THE KOREAN GOVERNMENT HAS ALSO SIGNED A COMPREHENSIVE BILATERAL SAFEGUARDS AGREEMENT WITH THE INTERNATIONAL ATOMIC ENERGY AGENCY UNDER ARTICLE III OF THE TREATY.

AS A RESULT OF THE FOREGOING, THE DEPARTMENT OF STATE AND THE OTHER CONCERNED AGENCIES OF THE EXECUTIVE BRANCH ARE NOW OF THE OPINION THAT THE KOREAN GOVERNMENT HAS PROVIDED SATISFACTORY ASSURANCES WITH RESPECT TO QUESTIONS CONCERNING SAFEGUARDS AND NON-PROLIFERATION ARRANGEMENTS WHICH HAVE ARISEN IN CONNECTION WITH THE PROPOSED KORI-II REACTOR SALE.

IN VIEW OF THE FOREGOING, I STRONGLY RECOMMEND THAT THE EXIMBANK NOW PROCEED EXPEDITIOUSLY TO ENTER INTO THE CREDIT AGREEMENT FOR THE KORI-II PROJECT. UNQUOTE
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NUCLEAR POWER PLANTS, LOANS, NONPROLIFERATION AGREEMENTS, NUCLEAR SAFEGUARDS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 FEB 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE031712
Document Source: CORE
Document Unique ID: 00
Drafter: JDFOBES:CHG
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760049-0868
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760266/aaaacgmp.tel
Line Count: 139
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 76 STATE 20557
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 27 OCT 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 OCT 2003 by GarlanWA>; APPROVED <22 SEP 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KORI-II
TAGS: EFIN, ETRD, MNUC, KS, US, XMB
To: SEOUL
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006